

Survey reveals hot pt markets

From agriculture to textiles, respondents to our exclusive survey power American industry with products as varied as ac drives and bearings, programmable controllers and sprockets.

By George M. Fodor, Senior Editor

Engine is a word we typically use to identify an assembly of cylinders, seals, rings, and other components encased in a block and mounted in line with gears and linkages. We ought to broaden our imagination. For "engine" also describes the power transmission (pt) distributor without whose products and services there would be little, if any, orange juice for breakfast, morning papers that report last night's news, or highways congested

by our individual commutes to work.

Indeed, ID's exclusive survey of pt distributors shows the group's influence to be everywhere. As Table I indicates, users of pt products process the food we eat, assemble the cars we drive and mine the aggregate we drive on. Further, pt distribution has a hand in ventilating the air we breathe, operating the elevators we ride and treating the waste we produce.

Getting all those jobs done re-

quires pt distributors to stock thousands of line items from bearings, belts and chain to motors and, with increasing frequency, electrical and electronic apparatus. As Table II reveals, 22% of responding pt distributors have added sensor, control and relay lines within the last year.

More importantly, this expansion reflects true growth into new areas and continued specialization, as 71% of our respondents report having dropped no existing product lines.

Top five pt markets

While pt distributors serve all industries, ID's survey showed these five areas to be pt's hottest markets in 1988:

- Food processing (55%)
- Automotive assembly (22%)
- Paper processing (19%)
- Mining/quarry operations (19%)
- Printing processes (14%)

I

What's selling

High-tech controls, our survey shows, are gaining shelf space alongside traditional pt products:

TOP SELLERS

- Bearings • Motors
- Drives • Gears
- Belts and chain

LINES ADDED

(22% of all respondents)

- Sensors
- Electronic controls
- Relays

II

Top issues

When asked to name the most important issue facing them as distributors, respondents put product and people at the top of the list:

- Delivery/product availability
- Finding qualified people
- Sustaining margins
- Competition from national chains
- Pricing
- Cash flow.

III

Categories that have been dropped are restricted to non-pt commodities such as "light bulbs," "fire equipment" and "certain aerosols."

Underneath these raw numbers lies a commitment to creativity. By learning about how programmable controllers work and are applied, pt distributors show a willingness to find new, faster, easier ways of accomplishing motion control tasks. This is particularly true for the 12% of our sample who named "automation assembly" as one of their top three markets served.

MANAGEMENT ISSUES

Despite recent controversy over dumping of product by foreign pt suppliers, only 1.6% of survey respondents identified foreign competition as a dominant issue affecting the way they run their distributorships. Containing costs, implementing systems contracts and smoothing vendor relations are all issues that, this year, are more pressing than foreign competition.

Similarly, strong local economies and restrained interest rates are each key concerns of about 5% of our survey group. Economic well-being of individual service areas is constantly a high priority among independent distributors and, as Table III shows, competition between national chains and regional independents is a top concern among survey respondents.

Inter-level competition, in fact, easily outpolled both price and cash flow as a core issue. Collectively, these money matters—pricing and receivables—were tapped by 17.6% of the survey as the number one issue facing distributors. On the other hand, fully 25.6% of pt distributors named availability of either people or product as their most troublesome concern.

Distribution's efforts at attracting qualified personnel have been well-documented (see II: July '88, p. 49 and pp. 12 and 38 of this issue). Pt distributors have funded an Educational Foundation for several years, and the newly formed Industrial Distribution Assn. (I.D.A.) has announced plans to create a similar foundation that will not only provide scholarships to students, but will also create video material promoting the benefits of distribution as a career.

FINDING PRODUCT

Perceptions of the availability and

What pt distributors are saying

The following are selected verbatim comments that power transmission distributors provided in response to the question "This year, what is the single, most important issue you face as a distributor?"

- Fighting national contracts with conglomerates.
- Quantity of competition.
- Pricing and delivery from manufacturers.
- Maintaining a superior customer service level; 100% on-time shipment with zero errors.
- Broadening our line to offer a wide selection of products as a single source.
- Lack of experienced salespeople.
- Competition from the manufacturer.
- Erosion of business to large chains offering just-in-time/system selling.
- Product availability.
- The rapidly deteriorating profit margins brought on by the large chainstore operations engaged in a price war; we are a single-store, independent operation doing battle with the "K-Marts" of the bearing and power transmission industry.
- Inventory management control.
- Customers tending toward single-source contracts.
- Taxes.
- Keeping up with changing technology.
- Recruiting and training of inside customer service personnel.
- People!!

delivery of product, however, reflect the fact that manufacturing is currently running at 84% of capacity, according to the government, a level that is several percentage points above the levels seen in recent years. On the other hand, an orneriness that seems endemic to the distributor-supplier relationship could also influence perceptions of delivery performance.

Automation assembly is a top market for 12% of survey participants.

For example, Harold Stutts, operations manager at Power Transmission Specialties (Carson, CA), says his high-tech suppliers "have a better handle on production and delivery than the 'iron' people do. Gearbox suppliers don't believe anything should be available in four to six weeks," Stutts says. Further, he notes that delivery problems "have gotten more severe within the last few months."

Conversely, Thomas Volk, presi-

dent of Ohio Belting and Transmission Co. (Toledo, OH), reports having delivery problems with only "a few suppliers." Availability and delivery delays "are not a general trend," Volk says, although "some manufacturers are cutting back on inventory." Volk connects the cut-backs he does see with the fact that "so many major players have changed ownership."

William Hayes, president of NTN Bearing Corp. of America (Des Plaines, IL), amplifies Volk's allusion to new owners by noting that "a series of mergers and acquisitions has effectively retired bearing capacity. Until recently," Hayes continues, "there were a number of 30-year-old machines that could be tapped for bearing production during peak times. Now that aged capacity is gone."

NTN is "in the process of expanding capacity," Hayes says, but, as is the case with any major capital investment project, "it will be 12 to 24 months before we see significant production."

Specific leadtime extensions have surfaced also in certain component product categories. For example, "pressures on delivery" have been noticed by John Martin, vice president of sales at Martin Sprocket & Gear, Inc. (Arlington, TX). "We're in

PT Product Showcase

good shape on pure stock items," Martin says, where the firm is maintaining 90 to 93% service levels. "However, on made-to-order items, we're running about 10 to 15% longer than we were last year."

Similarly, John Yedinak, manager of distributor marketing for electrical products at Reliance Electric (Cleveland, OH), says that "demand for product is significantly higher this year compared with a year ago, and our performance from stock continues to be challenged." To relieve these pressures, Yedinak explains that Reliance has, in addition to putting on more people and shifts, refined information gathering with respect to production cycles. This refinement helps the firm more reliably project delivery dates, Yedinak concludes.

Representatives from two suppliers, Zurn Industries, Inc. (La Grange, IL) and Baldor Electric Co. (Ft. Smith, AR), report that their firms are having no difficulties meeting delivery timetables. Thomas Werking, marketing manager for the Marland Clutch Div. of Zurn, credits specialization with his company's

ability to turn around an order in three days.

"We make one-way clutches, and we're dedicated to what we make," Werking says. "We benefit from having extremely flexible shop conditions and from stocking more raw materials than many of our competitors do. Distributors pay a little more for our product," according to Werking, but Marland Clutch delivers in 1/20th the time that many competitors take.

'Demand for product is significantly higher compared with a year ago.'—Yedinak

At Baldor, corporate communications manager Charles Hubbard points to the firm's network of 27 distribution locations throughout the

U.S. and Canada as the chief reason Baldor fulfills its pledge of "getting the right product to the customer within his time frame. We're providing immediate delivery of standard stock motors," Hubbard says, "and modified versions, such as a longer than normal shaft or special environmental protection, are still delivered within three days."

While custom-designed motors continue to carry traditional lead-times at Baldor, Hubbard says that a "flexible flow manufacturing system that is intended to shorten leadtimes and increase manufacturing efficiency will be implemented by the year's end."

The consensus among manufacturers suggests that supply pressures will not abate soon. Martin sees "90 to 120 days" of continued high demand, while Yedinak anticipates a strong market for the rest of this year, at minimum. A more cautiously optimistic Hayes concedes that "pressures could be present throughout all of 1989, although most people are looking for good business at least through the first half" of the new year. ☐



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SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Inflation expected to rise

Higher prices expected for goods and services

The economy has been expanding for the past few years without high inflation. This was made possible by employment of idle capital and by calling in or retraining unemployed workers. But the latest signs indicate that resources are now in short supply, while orders keep coming in and the backlog grows. This means that in the future some resources will have to be rationed by means of higher prices. More expensive inputs will translate into higher prices for goods and services at both the producer and consumer levels.

That is where the government steps in to coun-

terbalance inflationary pressures. Deflationary fiscal policy—cutting spending—is not feasible because it would cause recession. That leaves monetary policy controlled by the Fed. Higher interest rates will choke off consumer and investment spend-

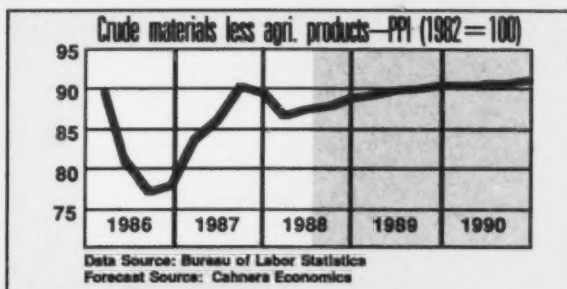
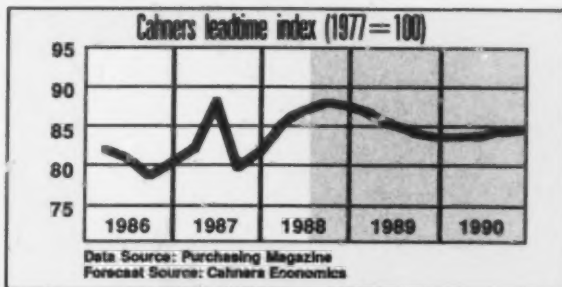
ing, cooling off the demand side. The price of this policy, however, will be higher capital costs for firms expanding to fill the order backlog.

Prices for crude materials have risen 1% in the second quarter but were up only 1.6% from a year

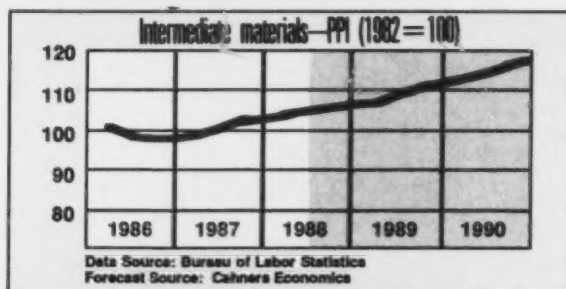
ago. However, prices for intermediate goods shot up at an annual rate of 4.4% in the second quarter. Expect overall inflation for this category to exceed 4.0% this year and next.

As a result of price increases, consumer inflation as measured by the consumer price index is also expected to increase. Our forecast has recently been augmented from 4.0% to 4.5% to account for the summer drought. Expect consumer inflation to average 5.0% in 1989.

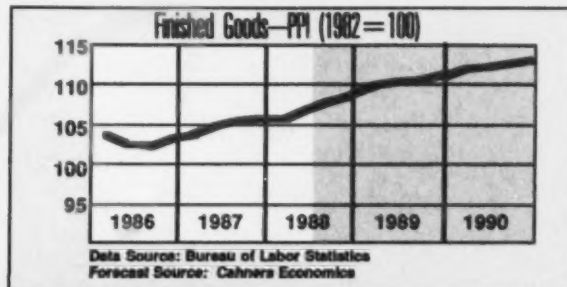
Cahners' leadtime index is forecast to rise 5.1% this year, but leads should moderate in 1989 as a result of added capacity. Eager to fill the backlog of orders, companies are investing in new technologies and adding productive resources. With new capacity, prices and leadtimes should moderate. □



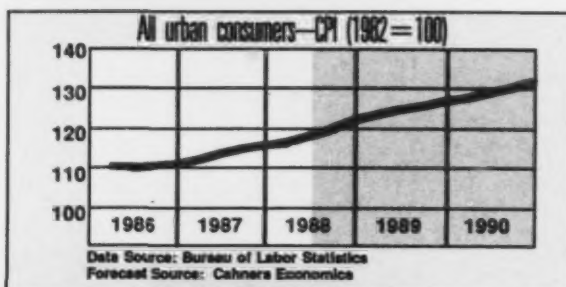
Prices for crude materials will rise 0.3% this year and should stay moderate for the remainder of this decade.



Expect an acceleration of inflation for intermediate materials. Prices will rise 4.0% this year and next before jumping 5.3% in 1990.



Finished goods prices should stay moderate through 1990 and grow 2 to 3% per year. The reason is expected excess capacity in 1989 and 1990.



We forecast consumer inflation to exceed 4.5% this year, top 5.0% next year and settle down to 3.5% in 1990. These figures incorporate drought adjustments.